Altitude Resources Inc.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended July 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altitude Resources Inc.

We have audited the accompanying consolidated financial statements of Altitude Resources Inc. and its subsidiary, which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Altitude Resources Inc. and its subsidiary as at July 31, 2016 and July 31, 2015 and its financial performance and its cash flows for the years then in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our option, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company and its subsidiary has had continued losses, cash outflows from operations and has negative working capital at year end which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional Accountants
December 5, 2016
Toronto, Ontario

Altitude Resources Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at July 31,

		2016		2015
Assets				
Current				
Cash and cash equivalents	**$**	**-**	$	107,297
Amounts receivable		**514,041**		54,861
Due from related party (Note 5)		**12,779**		12,779
		526,820		174,937
Exploration and evaluation assets (Note 6)		**2,457,298**		2,382,284
Prepaid property advances		**120,000**		-
	$	**3,104,118**	$	2,557,221
Liabilities				
Current				
Bank indebtedness	**$**	**14,327**	$	-
Accounts payable and accrued liabilities		**1,227,100**		571,192
Due to related parties (Note 5)		**105,921**		47,514
		1,347,348		618,706
Shareholders' Equity				
Share capital (Note 7)		**3,784,603**		3,784,603
Warrants (Note 8)		**600,735**		600,735
Contributed surplus (Note 8)		**104,378**		52,157
Deficit		**(2,732,946)**		(2,498,980)
		1,756,770		1,938,515
	$	**3,104,118**	$	2,557,221

Going concern (Note 2)
Commitments and contingencies (Note 11)

Approved by the Board **"Doug Porter"** Director **(Signed)** **"Gene Wusaty"** Director **(Signed)**

Altitude Resources Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital Class "A" Voting Common Shares Number	Amount	Warrants	Contributed Surplus	Deficit	Total Equity
Balance July 31, 2014	**21,794,797**	**3,581,834**	**590,504**	**47,478**	**(1,824,556)**	**2,395,260**
Flow through private placement (Note 7)	1,261,111	227,000	-	-	-	227,000
Share issue costs (Note 7)	-	(14,000)	-	-	-	(14,000)
Issuance of broker warrants (Note 8)	-	(10,231)	10,231	-	-	-
Stock-based compensation (Note 8)	-	-	-	4,679	-	4,679
Net loss and comprehensive loss	-	-	-	-	(674,424)	(674,424)
Balance, July 31, 2015	**23,055,908**	**$ 3,784,603**	**$ 600,735**	**$ 52,157**	**$ (2,498,980)**	**$ 1,938,515**
Stock based compensation (Note 8)	-	-	-	52,221	-	52,221
Net loss and comprehensive loss	-	-	-	-	(233,966)	(233,966)
Balance, July 31, 2016	**23,055,908**	**$ 3,784,603**	**$ 600,735**	**$ 104,378**	**$ (2,732,946)**	**$ 1,756,770**

See accompanying notes

Altitude Resources Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
Years Ended July 31,

		2016		2015
Expenses				
Salaries (Note 9)	$	**212,000**	$	132,621
General expenses		**95,763**		326,821
Stock based compensation (Note 8)		**52,221**		4,681
Write-down of exploration and evaluation assets (Note 6)		**49,000**		180,620
		408,984		644,023
Loss from operations		**(408,984)**		(644,023)
Other income (expenses)				
Operator’s fee		**177,425**		-
Interest, net (Note 5)		**(2,407)**		(2,400)
Bad debt		**-**		(28,001)
		175,018		(30,401)
Net loss and comprehensive loss	**$**	**(233,966)**	$	(674,424)
Loss per share				
Basic and diluted	**$**	**(0.01)**	$	(0.03)
Weighted average number of common shares outstanding				
Basic and diluted		**23,055,908**		22,530,733

See accompanying notes

Altitude Resources Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years Ended July 31,

	2016	2015
Cash provided by (used in)		
Operations		
Net loss and comprehensive loss	$ **(233,966)**	$ (674,424)
Items not affecting cash		
Amortization	**-**	10,763
Bad debt	**-**	28,001
Stock-based compensation	**52,221**	4,681
Write-down of exploration and evaluation assets	**49,000**	180,620
	(132,745)	(450,359)
Net changes in non-cash working capital		
Amounts receivable	**(459,180)**	101,641
Prepaid property advances	**(120,000)**	7,005
Accounts payable and accrued liabilities	**655,908**	39,944
Accrued interest	**2,407**	2,400
	(53,610)	(299,369)
Investing		
Acquisition of exploration and evaluation assets	**(2,217,817)**	(233,808)
Proceeds from joint exploration agreement	**2,341,831**	431,153
	(124,014)	197,345
Financing		
Due to related parties	**56,000**	14,839
Bank indebtedness	**-**	(18,836)
Proceeds from issue of share capital	**-**	213,000
	56,000	209,003
Net change in cash and cash equivalents	**(121,624)**	106,979
Cash and cash equivalents, beginning of year	**107,297**	318
Cash and cash equivalents (bank indebtedness), end of year	**$ (14,327)**	$ 107,297

See accompanying notes

1. NATURE OF OPERATIONS

Altitude Resources Inc. (the "Company" or "Altitude") (formerly Triumph Ventures III Corporation ("Triumph"')) was incorporated under the Business Corporations Act (Ontario) on January 19, 2011. Triumph commenced trading on the TSX Venture Exchange as a Capital Pool Company on March 15, 2012. On December 31, 2012, Triumph was acquired by Altitude Resources Ltd., a privately- owned Alberta incorporated company, in a reverse takeover ("RTO") transaction. The RTO was effected by means of a triangular amalgamation in which Altitude Resources Ltd. amalgamated with a wholly-owned subsidiary of Triumph. Triumph was renamed Altitude Resources Inc. on December 31, 2012. Shares of Altitude began trading on the TSX Venture Exchange under the symbol ALI on February 15, 2013.

Altitude is a junior coal exploration company with a current exploration focus in northwest Alberta. The primary office of the Company is located at #1100, 736 – 8th Avenue SW, Calgary, Alberta, Canada, T2P 1H4.

The Company is in the process of exploring, and has not yet fully determined the quality and quantity of coal resources on its properties. Accordingly, as is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs.

These financial statements were authorized for issue by the board of directors on December 5, 2016.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, these consolidated financial statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in the consolidated financial statements.

The reader is also directed to review note 13(c) - ***Financial instruments – Liquidity risk***.

At July 31, 2016, the Company had a working capital deficit of $820,528 (2015 – $443,769), a net cash position of ($14,327) (2015 – $107,297), negative cash flow from operations of $53,610 (2015 - $299,369) and an accumulated deficit of $2,732,946 (2015 – $2,498,980). These conditions represent material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. In order to meet its work commitments and planned exploration expenditures for its projects as well as further working capital requirements, the Company will be required to complete a financing (debt or equity). Management continues to work toward arranging additional financing.

3. BASIS OF PRESENTATION

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee, effective for the Company's reporting for the year ended July 31, 2016.

The financial statements have been prepared on the historical cost basis except for certain financial instruments which have been measured at fair value. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The presentation and functional currency of the Company and its subsidiary is the Canadian dollar.

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, Altitude Resources Ltd. All significant inter-company transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiary.

The subsidiary is controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences until the date control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Exploration and Evaluation Assets

All costs incurred prior to obtaining the rights to explore a mineral property are expensed. Subsequent to obtaining the rights to explore its mineral properties the Company capitalizes all costs, net of any recoveries, during the exploration and evaluation stage. Amounts received from other parties to earn an interest in the Company's resources properties are applied as a reduction of the resource properties. These costs are recognized as intangible assets and will be amortized on the units-of-production basis over the estimated useful life of the properties following commencement of production, or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash consideration paid. The recorded cost of mineral claims and deferred exploration and evaluation costs represent costs incurred and are not intended to reflect present or future values.

The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment

The carrying value of all categories of exploration and evaluation assets are reviewed at each reporting date for impairment whenever events or circumstances indicate the recoverable amount may be less than the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value (less costs of disposal) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

An impairment loss is recognized when the carrying value of an asset held for use exceeds its estimated recoverable amount. Impairment losses are recognized in other expenses. Assumptions, such as coal price, discount rate, and expenditures, underlying the fair value estimates are subject to risks and uncertainties. Impairment charges are recorded in the reporting period in which determination of impairment is made by management.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion or amortization, if no impairment loss had been recognized.

Provisions and Asset Retirement Obligations

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions, including asset retirement obligations, are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Flow-through Shares

The Company finances certain of its exploration activities through the issuance of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investors. Proceeds received on the issuance of such shares have been credited to share capital less the premium paid for the sale of tax deductions. To the extent that the Company issues common shares to subscribers on a flow-through basis at a premium to the market value of non-flow-through common shares, any such premium is recorded as a liability on the Company's statement of financial position at the time of subscription. This liability is reduced, on a pro-rata basis, as the Company fulfills its expenditure renunciation obligation associated with such flow-through share issuances, with an offsetting amount recognized as other income. A deferred income tax liability equal to the tax value of flow-through expenditures renounced is recognized once the Company has fulfilled its obligations associated with the renunciation of related flow-through expenditures. In respect of a retrospective renunciation, such obligation is considered to have been fulfilled once related renunciation filings have been made with the appropriate taxation authorities. In respect of prospective renunciation (i.e., a look-back renunciation), the obligation is considered to be fulfilled once related flow-through expenditures have been incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the consideration received or provided, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. Stock-based compensation is charged to the statement of comprehensive loss over the tranche's vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Warrants

For transactions involving the issuance of warrants, the Company measures these transactions at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. In the case of unit placements, the proceeds from the issuance of units is allocated between common shares and warrants on a pro-rata basis based on relative fair values. Share issuance costs incurred in connection with the issuance of unit placements are recognized in share capital as a reduction of the proceeds allocated to common shares and warrants on a pro-rata basis.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

Lease

Leases are classified as finance leases when the lease arrangement transfers substantially all of the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Company. The corresponding finance lease liability is reduced by lease payments net of imputed interest. All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except for items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net earnings in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes conversion, exercise or contingent issuance of options, warrants and securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Accounting Estimates and Judgements

The preparation of consolidated financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the valuation of exploration and evaluation assets, the valuation of accrued liabilities, the valuation of stock options, and deferred income taxes. These judgements notably relate to the provisions and contingencies and determination of the accounting for the exploration agreements entered during the year and assessment of going concern uncertainties.

New Standards and Interpretations Issued But Not Yet Adopted

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards will have on the consolidated financial statements of the Company.

- Pronouncements effective for annual periods beginning on or after January 1, 2018

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. The new standard will replace IAS 39, Financial instruments: recognition and measurement. The final amendments made in the new version include guidance for the classification and measurement of financial assets and a third measurement category for financial assets, fair value through other comprehensive income. The standard also contains a new expected loss impairment model for debt instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. Early adoption is permitted. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required.

IFRS 16 - Leases sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right of-use assets and lease liabilities for leases with terms of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, fair value through profit or loss (`FVTPL`), loans and receivables, available-for-sale or other financial liabilities.

Held-to-maturity financial assets are initially recognized at their fair values and subsequently measured at amortized cost using the effective interest method. Impairment losses are charged to net income in the period in which they arise.

FVTPL financial instruments are carried at fair value with changes in fair value charged or credited to net loss in the period in which they arise.

Loans and receivables are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to earnings using the effective interest method. Impairment losses are charged to net income in the period in which they arise.

Available-for-sale financial instruments are carried at fair value with changes in the fair value charged or credited to other comprehensive income. Impairment losses are charged to net income in the period in which they arise. Available-for-sale financial instruments are carried at cost in the absence of a quoted market price and when unable to reliably measure fair value.

Other financial liabilities are initially measured at amortized cost, net of transaction costs and any embedded derivatives that are not closely related to the financial liability, depending upon the nature of the instrument with any resulting premium or discount from the face value being amortized to net income using the effective interest method.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Bank indebtedness	Other liabilities
Amounts receivable	Loans and receivables
Due from related party	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Cash and cash equivalents is considered to be Level 1.

5. DUE TO AND FROM RELATED PARTIES

	2016	2015
Due from a related party(i)	**$ 12,779**	$ 12,779
Due to related parties(i)	**70,838**	14,838
Loan payable(ii)	**35,083**	32,676
	$ 105,921	$ 47,514

(i) The amounts are due from/to various shareholders, are non-interest bearing, unsecured and repayable on demand.

(ii) Loan payable in the amount of $30,000 to a company with a former related director, who is considered a related party for part of the prior year. The principal was due December 15, 2014, bears an annual interest rate of 8% accrued monthly and added to the principal. The loan was convertible into the next financing at the option of the holder. Interest of $2,407 ($2,400 – 2015) is accrued in respect of 2016.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

	2016	2015
Balance beginning of year – Palisades Property	**$ 2,382,284**	$ 2,420,976
Acquisition cost and leases	**15,597**	29,344
Exploration	**2,277,234**	239,359
JOGMEC contribution	**(2,217,817)**	(307,395)
Balance end of year – Palisades Property	**2,457,298**	2,382,284
Balance beginning of year – Elan Coal Property	**-**	256,914
Acquisition cost	**-**	-
Exploration	**49,000**	73,706
Kuro's contribution	**-**	(150,000)
Write down of Elan Coal Property	**(49,000)**	(180,620)
Balance ending of year – Elan Coal Property	**-**	-
	$ 2,457,298	$ 2,382,284

Palisades Property

The Company's 100% owned Palisades Property is comprised of six contiguous Alberta Crown Coal leases acquired directly from the Alberta Department of Energy between September 2010 and February 2011. Five of the leases are included within Alberta Department of Energy's Category 4 classification; the sixth lease is a combination of Category 4 and Category 2 lands. There are no work commitments associated with the Palisades Property. The only ongoing obligation is the payment of the annual lease (currently $3.50 per hectare) for a 15 year period from the commencement of the leases.

The Palisades Property totals 4,648 hectares. It is located approximately 28 kilometres northwest of the town of Hinton, Alberta.

Palisades Extension Application

The Palisades Extension Application was acquired by the Company in October 2011. It is comprised of one Alberta Crown Coal lease application totaling 7,034 hectares. This property falls entirely in Coal Category 2 of A Coal Development Policy for Alberta. For Category 2 properties, a formal Alberta Crown Coal lease will not be issued until such time as the Alberta Department of Energy reaches a decision on its Coal Policy. Application holders are, however, free to perform some limited exploration work on the properties. The Palisades Extension Application is contiguous to the northeast of the Company's Palisades Property.

6. EXPLORATION AND EVALUATION ASSETS (Cont'd)

Moberley Creek Application

The Moberley Creek Application was acquired by the Company in January 2012. It is comprised of four Alberta Crown Coal lease applications totaling 5,376 hectares. This property falls entirely in Coal Category 2 of A Coal Development Policy for Alberta. The Moberley Creek Application is located approximately 12.5 kilometres from the northern tip of the Company's Palisades Extension Application.

Altitude North Applications

The Altitude North Application was acquired by the Company in October 2012. It is comprised of three Alberta Crown Coal lease applications totaling 5,244 hectares. This property falls entirely in Coal Category 2 of A Coal Development Policy for Alberta. The Altitude North Application is located approximately 30 kilometres northwest from the northern tip of the Company's Moberly Creek Application.

2016 Activity

On April 8, 2015, the Company entered into the Joint Exploration Agreement with Japan Oil, Gas and Metals National Corporation ("JOGMEC") to explore Palisades metallurgical coal project in West Central Alberta, Canada. Through a joint exploration arrangement JOGMEC has agreed to acquire up to a 51% interest in the Company's Palisades Coal Project based on the three (3) farm in milestones which include field work, drilling and completion of mining study.

During the First Farm-in period (ended on March 31, 2016), JOGMEC contributed $1,500,000 in cash ($1,192,605 was contributed during fiscal 2016; 2015 - $307,395) towards exploration on the Palisades Project. During the second Farm-In period (ends March 31, 2017 or until the required contribution is received), JOGMEC shall contribute $1,500,000 towards exploration on the Palisades Project. This will earn JOGMEC an unencumbered right, title and benefit to thirty-one point eight seven five percent (31.875%) of the Property. During the third Farm-In Period (ends March 31, 2018 or until the required contribution is received) JOGMEC shall contribute $1,800,000 towards exploration on the Palisades Project. As at July 31, 2016, JOGMEC had contributed $1,025,213 towards its Second Farm-In obligation.

As of completion of the Earn-In Period, the respective actual or deemed equitable interests in the Palisades Project shall be: (i) if JOGMEC has contributed a total amount of $3,000,000 by the end of second Farm-In Period: Altitude 68.125% JOGMEC 31.875% (ii) if JOGMEC has contributed a total amount of CAN$4,800,000 by the end of third Farm-In Period: Altitude 49%, JOGMEC 51%.

The Company was the operator under the JOGMEC Joint Venture Agreement pursuant to which it earned an operating fee on any exploration expenditures. There were $177,425 operating fees for the year ended July 31, 2016 (2015 - $nil). As the income from operating the JOGMEC Joint Venture was not related to the Company's primary business of exploring and mining mineral properties the net operator income has been shown under other income and not as revenue and expense on the statements of operations.

6. EXPLORATION AND EVALUATION ASSETS (Cont'd)

Exploration and Option agreement with Elan Coal Ltd.

On August 8, 2013 the Company ("ALI") entered into an Exploration and Option Agreement with Elan Coal Ltd ("Elan"), a company with a related director who is a private non-arm's length party. Under the terms of the agreement the Company will acquire an option to earn up to 51% interest in Elan Coal Ltd's coal properties upon making an initial cash payment of $200,000 (paid) to Elan to fund field work and completing a financing of a minimum of $2,000,000. Due to poor financial market conditions ALI was not able to raise the minimum $2,000,000. As of July 31, 2014, ALI had advanced a total of $256,917 to Elan to fund certain early exploration activities.

On November 10, 2014, ALI and Elan signed a Limited Partnership Agreement ("LP Agreement") with Kuro Coal Limited ("Kuro") to develop the Elan Project. Elan Project comprises of 27 leases totaling approximately 25,612 hectares. Kuro has the opportunity to acquire up to a 70% interest in the Elan Project upon successful completion of, amongst other exploration requirements, financing and a feasibility study. Assuming Kuro fulfills all requirements to earn its 70% interest under the LP Agreement, ALI will retain an ownership equal to 12.5% and Elan will retain an ownership equal to 17.5%. The LP Agreement allows for additional earn-in options which could be exercised by Kuro upon completion of initial contribution. To earn an initial interest of 20%, Kuro had the following requirements:

1- Pay ALI $150,000 as per LP Agreement (paid) and recorded by ALI as a credit against the previously capitalized assets of $256,914.

2- Within 5 business days of Kuro listing its shares on a public exchange, enter into the subscription agreement with Elan and ALI to issue 1,312,500 and 187,500 shares respectively for no consideration at $.20 per common share. If listing has not occurred after six months of the effective date of LP Agreement, Kuro will pay each Elan and ALI the cash equivalent value of such shares assuming an issue price of $.20 per common share; (this has not been completed) and

3- Fund, no later than December 31, 2014, 100% of costs in relation to operations pursuant to adopted programs and budgets totaling in the aggregate no less than $500,000 (this has been completed.

Kuro has not yet earned its 20% interest as the 2nd requirement above, the listing of the Shares of Kuro on a recognized stock exchange and then the issuance of shares to Elan and ALI, has not happened. Kuro is negotiating to extend the requirement to complete a public listing or pay the cash equivalent as per LP Agreement.

During the year-ended July 31, 2016, ALI advanced $49,000 to Elan. Based on the analysis of IFRS-6 indicators, management concluded that it would be appropriate to impair its net investment into the Elan Project of $49,000 as at July 31, 2016 due to delays experienced to date and uncertainties surrounding Kuro's ability to fund the LP. The impairment loss is recognized in other expenses. In 2015, $73,706 was advanced and impaired for similar reasons.

7. SHARE CAPITAL

Authorized, unlimited Class "A" Voting Common Shares

On December 30, 2014 the Company completed a private placement of 1,261,111 flow-through common shares at a price of $0.18 per flow-through share by way of a non-brokered private placement for total gross proceeds of $227,000. There was no flow-through share premium associated with the issuance of flow-through common shares.

In connection with the closing of the offering, the Company paid a cash finder's fee $14,000. The Company also issued finder's warrants exercisable for up to 77,778 common shares of the Company (the "Finder's Warrants").

8. STOCK OPTIONS AND WARRANTS

a) Stock options

The Company has a stock option plan to provide officers, directors, employees and consultants of the Company with options to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the minimum exercise price of the options is the market price of the Company's stock on the date of grant. The maximum term of the options is five years and the options generally vest over a three year period, or as determined by the Company's board of directors.

On March 2, 2012, the Company granted an aggregate of 137,262 stock options to purchase common shares to its directors and officers, exercisable at a price of $0.40 per common share for a period of five years from the date of grant and vesting over a three year period. During the year ended July 31, 2015, the Company recorded a related stock based compensation expense of $4,681 (2014 – $16,717) using the following assumptions: (stock price - $0.49; exercise price - $0.40; term 4.16 years; volatility (based on comparable companies) – 110%; risk free rate – 1.33%).

On July 31, 2016, the Company granted an aggregate of 2,000,000 stock options to purchase common shares to its directors and officers, exercisable at prices ranging from $0.08 to $0.12, expiring on May 30, 2021 and vesting over a three year period. The Black-Scholes option pricing model was used to determine the fair value of the issued options of $52,221. The assumptions used were as follows: (stock price - $0.09; average exercise price - $0.10; term 5.0 years; volatility (based on comparable companies) – 130%; risk free rate – 0.75%; expected dividends of nil).

As at July 31, 2016, 2,137,262 options remain outstanding of which 807,262 are exercisable at July 31, 2016. The average exercise price of options outstanding is $0.10 and the remaining weighted average contractual life of the options is 4.79 years.

b) Warrants

As described in note 7, during the year ended July 31, 2015 the Company issued finder's warrants exercisable for up to 77,778 common shares of the Company (the "Finder's Warrants"). The Finder's Warrants have an exercise price of $0.22 per share and expire eighteen months from the closing date of the offering. $10,231 of fair value of warrants was determined using Black-Scholes option pricing model with the following assumptions: stock price-$0.20; exercise price-$0.22; expected life – 1.5 years; risk free rate – 0.62%; volatility – 93%.

During the year ended July 31, 2016 these 77,778 warrants expired unexercised. As at July 31, 2016, no warrants are outstanding.

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

During the year ended July 31, 2016, $212,000 (2015 - $214,047) was paid or accrued to the Chief Executive Officer and Chief Financial Officer as compensation. As at July 31, 2016, $430,616 (2015 - $203,778) is payable to the Chief Executive Officer and Chief Financial Officer and is included in accounts payable and accrued liabilities. In addition, during the year ended July 31, 2016, the Chief Executive Officer was granted 600,000 stock options with a fair value of $46,764 and the Chief Financial Officer was granted 450,000 stock options with a fair value of $35,073 (2015 – nil and nil), exercisable at prices ranging from $0.08 to $0.12 (See Note 8).

10. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/ provincial tax rates with the income tax expense in the consolidated financial statements:

	2016	2015
Loss before income taxes	**$ (233,966)**	$ (674,424)
Statutory rate	**25.00%**	25.00%
Expected income tax recovery	**$ (58,492)**	$ (168,606)
Effect on income taxes of unrecognized deferred tax assets relating to deductible temporary differences on:		
Non-deductible expenses	**13,711**	1,736
Adjustment to non-capital losses	**134,645**	
Change in deferred tax asset not recognized	**(89,864)**	166,870
Income tax expense	**$ -**	$ -

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	2016	2015
Amounts related to tax loss carry forwards	**$ 543,159**	$ 602,413
Exploration and evaluation and capital assets	**(239,231)**	(250,827)
Share issue costs	**52,521**	94,727
Deferred tax asset	**356,449**	446,313
Less: Deferred tax asset not recognized	**(356,449)**	(446,313)
	$ -	$ -

(Expressed in Canadian Dollars)

10. INCOME TAXES (Cont'd)

(c) Loss Carryforwards

As at July 31, 2016, the Company has non-capital losses of $2,172,638 expiring as follows:

2030	$ 97,980
2031	295,556
2032	131,168
2033	331,936
2034	730,359
2035	284,172
2036	301,567
	$ 2,172,638

The potential tax benefit relating to the non-capital losses and tax credit carryforwards has not been reflected in these financial statements.

11. COMMITMENTS AND CONTINGENCIES

As part of its mineral property option agreements the Company has agreed to make certain payments of cash in order to exercise its options on the various properties (Note 6).

The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.

The Company has not determined and is not aware that any provision for such costs is required and is unable to determine the impact on its financial position of environmental laws, if any, and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

The Company is contingently liable for its share of liabilities of the LP (note 6), which as of July 31, 2016, management has determined to be $Nil.

If and when the Company achieves production of marketable coal, it will be subject to an Alberta government royalty payment based on a "revenue minus costs" royalty regime. The current royalty rates are:

- 1% of mine mouth revenue prior to mine payout, and;
- 1% of mine mouth revenue plus 13% of net revenue after mine payout.

12. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of share capital, warrants, contributed surplus and deficit.

The Company's objective when managing capital is to maintain adequate levels of funding to support its exploration activities and to maintain corporate and administrative functions necessary to support operational activities.

The Company manages its capital structure in a manner that provides sufficient funding for operational activities. Funds are primarily secured through equity capital raised by way of private placements and joint operations. There can be no assurances that the Company will be able to continue raising equity capital in this manner.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash and all are held in a major Canadian financial institution.

There has been no change in management's capital policy during the period.

13. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company is exposed to credit risk, market risk (consisting of interest rate risk, and commodity price risk), and liquidity risk.

(a) Credit Risk

The financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable, which is comprised of government remittances and a receivable from JOGMEC (Note 6). The Company mitigates its exposure to credit loss by placing its cash with major financial institutions and regular monthly billing and receipt of funds from JOGMEC.

(b) Interest Rate Risk

The Company has an outstanding balance due to a related party that has a fixed interest rate of 8 percent per annum, and as a result, is not exposed to cash flow interest rate risk arising from changes in interest rates. The Company has not entered into any agreements to hedge its interest rate risk exposure.

(c) Liquidity Risk

As at July 31, 2016, the Company had accounts payable and accrued liabilities of $1,227,100 (2015 - $571,192), loans to related parties of $105,921 (2015 - $47,514) and bank indebtedness of $14,328 (2015 – cash and cash equivalents of $107,297), therefore the Company is currently not able to meet its obligations (Note 2).

13. FINANCIAL INSTRUMENTS AND RISK FACTORS (Cont'd)

(d) Fair Value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The carrying values of cash and cash equivalents, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, and due from and due to related parties, approximate fair values due to the relatively short term maturities of these instruments.